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RSC Policy Brief: Transportation Spending and Gasoline Taxes

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Before the House of Representatives left for recess, it unanimously approved H.R. 3311 to authorize $250 million to repair the bridge that collapsed in Minnesota on August 1, 2007. This legislation addressed one aspect of the tragedy, the need to rebuild the collapsed bridge.

The tragedy and the revelation that other bridges across the country may suffer from similar structural deficiencies has led to calls for additional federal spending for bridge repairs and for transportation infrastructure improvements in general. For example recent articles report that Chairman Oberstar may seek $25 billion over three years for this purpose and join such spending with a five cent increase in the gasoline tax.

The purpose of this paper is to analyze the merits of this proposal with a view toward whether more federal transportation spending is needed and whether an increase in the gas tax is desirable.

The Federal Role in Transportation Spending:
In 1956, the National Interstate and National Defense Highways Act was signed into law by President Dwight D. Eisenhower. As the name implies, the Highway Trust Fund was established to create an interstate highway system, which President Eisenhower saw as key to national security.

In 1991, Congress declared that the Interstate Highway System had been completed (P.L. 102-240, Section 1001). And today, while some money from the Highway Trust Fund is still used to maintain and improve the Interstate Highway System, much of the money is used for *intrastate* road projects. The federal role for projects of this type is less compelling, and there have been proposals to devolve the portion of the Highway Trust Fund that is not being used to pay for the Interstate Highway System back to the states. Senator Connie Mack and Representative John Kasich, for example, proposed legislation to this effect in 1996—as did the RSC's Contract with America Renewed budget in 2006.

The Growth in Federal Transportation Spending:
In order to consider the merits of proposed spending increases, it is first necessary to consider recent trends in such spending. The 2005 highway bill provided $286 billion in

guaranteed spending authority, setting a path for spending to be 23 percent higher in FY 2009 ($53.5 billion) than in FY 2005 ($43.5 billion).

In terms of overall transportation spending, in 2006, the federal government spent $70.2 billion on transportation compared to $39.6 billion in 1996, an increase of 77 percent compared to ten years earlier.

Table 1: Growth in Transportation Spending in Perspective from 1996 to 2006
(in percent)

	Inflation	**Nominal GDP Growth**	**Federal Budget Growth**	**Transportation Spending Growth**
Annual Increase	2.5	5.5	5.5	*5.8*
Cumulative Increase	27.4	69.7	70	*77.5*

As Table 1 indicates, over the last ten years, overall federal transportation spending has grown faster than a number of other relevant points of comparison, including inflation, nominal GDP growth, and the overall growth of federal spending. Or to put it another way, over the last ten years, the federal budget has increased as a percentage of the U.S. economy and transportation spending has increased as a portion of the federal budget.

Within the amount the federal government spends on transportation, policy choices are made about where to devote resources. For example, the 2005 highway bill included 6,300 or $24 billion in earmarks, which is almost precisely the figure that proponents of increasing the gasoline tax hope to raise from such a gas tax increase, according to at least one report. [By way of comparison, President Reagan vetoed the 1987 highway bill, citing concern about the bill's inclusion of 152 earmarks. The highway bill before that, enacted in 1982, included ten earmarks.]

The 2005 highway bill also included money for other programs that, perhaps meritorious for other reasons, arguably do not improve *federal* transportation infrastructure. For example, the 2005 highway bill provided $370 million over five years from the Highway Trust Fund to be used for the Recreational Trails Program. According to the FHWA, this program gives money to the states "to develop and maintain recreational trails and trail-related facilities for both non-motorized and motorized recreational trail uses." In many cases, these trails are for bike paths.

The federal government—without a proposed new source of additional money—currently spends a good amount of money on transportation programs. If demand exists for still more money, some conservatives might argue that the correct recourse is to reprioritize how transportation money is being spent rather than increase the overall amount being spent.

The Impact of Federal Transportation Spending on State Transportation Policies:
It is also important to consider the effect of federal investment on state and local government policies. For instance, a 2004 GAO report states that federal highway spending has caused state and local governments to spend less money on transportation than would otherwise be the case. Since 1991, state and local spending on transportation has increased by 23 percent while federal spending has increased by 47 percent (in real terms). From 1998 to 2002, following enactment of TEA-21, state and local spending decreased by 4 percent in real terms while federal spending increased by 40 percent (in real terms). As the GAO puts it:

> Specifically, our model examined how federal highway spending affected state spending, and it estimated that state and local governments have used roughly half of the increases in federal highway grants since 1982 to substitute for funding they would otherwise have spent from their own resources.

In some respects, the question may not be whether infrastructure improvements ought to be addressed but rather who should bear the cost—federal, state, or local taxpayers.

A Short History of the Gasoline Tax:
Since some have argued for an increase in the gasoline tax, perhaps a brief history of the tax may be worthwhile. Last year, CRS analyzed the history of the gasoline tax in some detail from its inception through the most recent tax increases during the 1990s. What is telling is how often changes to the gas tax have converged with the federal government's need or desire for more revenue, instead of being primarily impacted by transportation policy.

- The first federal tax on gasoline was established by the Revenue Act of 1932. As the name implies, this was not a transportation bill. After World War I, the federal government ran a surplus every single year from 1920 to 1930. However, the Great Depression depleted federal revenues, which fell by more than 50 percent from 1930 to 1932. President Hoover and a Democrat Congress responded with the Revenue Act of 1932, which increased the corporate tax, the death tax, and income tax rates. It also established the first tax on gasoline at one cent a gallon. The federal government was already spending money on roads and with this law it now collected a gasoline tax, but no direct relationship was established between the two. Instead the gasoline tax was included in the Act largely because it was a dependable source of revenue.

- In 1933, in the first few months of the New Deal, the gasoline tax was increased from 1 cent per gallon to 1.5 cents per gallon. Again, the purpose of the tax increase was the desire for more federal revenue. One note about this particular tax increase is that included in the legislation—the National Industrial Recovery Act—was a provision to bring the gas tax back down to one cent per gallon should Prohibition be repealed (since the end of Prohibition would have allowed the federal government to collect revenue from foregone liquor taxes). By the end of 1933, the 21st Amendment was ratified, which led in 1934 to the gasoline tax being brought back down to one cent per gallon—the only substantial decrease in the gas tax since its creation.

- In 1940, the gas tax was increased back to 1.5 cents a gallon to help pay for the defense buildup before American entry into World War II. The Korean War led to a further increase to 2 cents a gallon.

- In 1956, the National Interstate and National Defense Highways Act increased the gasoline tax to three cents a gallon and directed gasoline taxes toward building the interstate highway system. Three years later, the gasoline tax was increased to four cents per gallon. For the next several decades the gasoline tax was dedicated toward the federal Highway Trust Fund.

- However, since 1983, to varying degrees, the gasoline tax has been used to pay for spending outside of the Highway Trust Fund. In 1983, the gasoline tax was increased to nine cents a gallon with one cent of the tax diverted to a Mass Transit Account. In 1987, the tax was increased by one-tenth of one cent with the amount of the increase diverted to a Leaking Underground Storage Tank Trust Fund. In 1990, the gasoline tax was increased from 9.1 cents to 14.1 cents, and half of this increase (2.5 cents) went to the general Treasury. In 1993, the gas tax was increased by another 4.3 cents, to the present 18.4 cents per gallon, with all of the increase flowing into the general coffers of the federal Treasury. The gasoline tax increases in 1990 and 1993 were included as part of, what is in nominal terms, the two largest enacted tax increases in American history—the Omnibus Reconciliation Act of 1990 and the Omnibus Budget Reconciliation Act of 1993.

Table 2: Notable Changes to the Gasoline Tax

Year	**Tax per Gallon**	**Congress's Purpose/ Rationale for Tax Increase**	**Dedicated to HTF**
1932	1 cent	Great Depression and growing federal deficits	0%
1933	1.5 cents	Great Depression and Congress's desire to pay for New Deal	0%
1934	1 cent	Prohibition is repealed by the 21st amendment, which brings in a new source of revenue (alcohol taxes)	0%
1940	1.5 cents	Defense buildup prior to World War II	0%
1951	2 cents	Korean War	0%
1956	3 cents	Creation of Interstate Highway System	100%
1959	4 cents	Federal Aid Highway Act of 1959	100%
1983	9 cents	Desire for both more highway spending and more federal revenue	89%
1990	14.1 cents	Dedicated toward deficit reduction	71%
1993	18.4 cents	Increase dedicated to deficit reduction as part of the 1993 tax increase/ deficit reduction package	54%

In 2007, aside from the federal tax, every state also imposes a gasoline tax. With the federal tax at 18.4 cents per gallon, and the average state tax at 28.5 cents per gallon, the total amount of the gasoline tax levied by all levels of government combined averages 46.9 cents per gallon.

A Proposed Gasoline Tax Hike:
The gasoline tax is a regressive tax since, in general, the higher a person's income the lower the percentage of the person's income that is spent on gasoline. As a result, it is instead justified as a user tax.

However, there are some problems with calling the gasoline tax a user tax. As the above history indicates, the tax was established and increased for the same reason most taxes are—to infuse the federal government more revenue. And while the tax was dedicated to federal highway needs for several decades, it began to subsidize other government needs again in the 1980s and 1990s.

There is another problem with increasing the gasoline tax, at least insofar as it is not part of legislation that includes a corresponding tax cut of equal value—it is a tax increase. Regardless of what one believes the tax burden should be, it is worth considering two facts about federal taxes.

The federal tax burden (measured as a percentage of GDP) is already above the historic average of the last forty years. CBO's most recent projection for FY 2007 is that federal revenue will be 18.8 percent of GDP compared to 18.2 percent of GDP over the previous forty years.

Federal revenue grew by 14.5 percent in 2005, by 11.8 percent in 2006, and it is projected to grow by 7.1 percent in 2007. Overall, CBO's most recent projection for FY 2007 would mean that revenue has increased by $697 billion or 37 percent since 2004. Under current law, CBO projects federal revenues will increase by another $1.8 trillion or 70 percent over the next ten years, an increase from $2.6 trillion to $4.4 trillion.

In addition, CBO notes that the tax code is projected to collect revenue faster than the rate of economic growth. This occurs because the income tax is not indexed for wage growth, the value of some deductions in the tax code are not indexed for inflation at all, the large projected increase in the number of taxpayers hit by the AMT, significant future tax payments have been deferred such as with IRAs, and finally because under current law the 2001 and 2003 tax cuts expire. In short, if federal tax policy is simply left on auto-pilot, even with no other action by Congress to increase taxes, the federal tax burden measured as a percentage of GDP will increase to levels never before seen in American history.

Table 3: Federal Revenue as a Percentage of GDP by Year

	Historical Average	2007	2017	2050
Federal Revenue	18.2	18.8	20.3	23.7
Compared to Historic Average	----	0.6	2.1	4.5

To date, the highest figure for federal revenue as a percentage of GDP is 20.9 percent in 1944, at the height of World War II, and then again in 2000, during the stock market bubble. Any increase in the gasoline tax, would take place during a period where the tax burden is already above the average of the last forty years and projected to increase even further.

Conclusion:
Federal transportation spending has grown by a greater rate than inflation, nominal GDP, and overall federal spending over the previous decade. Within the portion of the federal budget that is dedicated toward transportation spending, choices are made about how much to spend on bridge repairs and how much to spend on other items. In short, some conservatives may believe that proposed increases in bridge repairs could and should be paid for by reducing the rate of increases for lower priority transportation spending, and one way to avoid such a prioritization is to increase the gasoline tax during a time when Americans are already over-taxed.

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